

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

EXAMINATION OF THE ELLIOTT COUNTY CLERK

**For The Year Ended
December 31, 2002**

The Auditor of Public Accounts was engaged to audit the Elliott County Clerk for the year ended December 31, 2002. We have disclaimed an opinion on the financial statement. The County Clerk has serious weaknesses in her accounting function. The County Clerk did not maintain a receipts ledger, a disbursements ledger, nor did she prepare a financial statement. In addition, the County Clerk has serious weaknesses in the design and operation of her system of internal controls in the areas of Motor Vehicle Licensing that allowed a former Deputy Clerk to manipulate and falsify reports and records of the County Clerk's Office. Furthermore, the high risk factors associated with the engagement prevent us from expressing an opinion on the County Clerk's financial statement.

Financial Condition:

There were no excess fees for calendar year 2001 and 2002. Revenues increased by \$45,058 from the prior year and expenditures increased by \$30,579.

Report Comments:

- The County Clerk Did Not Prepare Legal Process Reports Timely
- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Disbursements
- The County Clerk Was Not Cooperative When The Auditors Requested Access To Her Records
- The County Clerk Did Not Deposit Usage Taxes On A Daily Basis
- A Former Deputy Clerk Manipulated And Falsified The County Clerk's Tangible Personal Property Receipts As A Result Of Lack Of Segregation Of Duties In The County Clerk's Office
- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit Of \$24,243 In Her Fee Accounts
- The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner
- The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes
- The County Clerk Did Not Monitor The Daily Activities Of Her Office
- The County Clerk Did Not Prepare Ledgers Or A Financial Statement
- The County Clerk's Office Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Honorable Reeda S. Ison, Elliott County Clerk

Members of the Elliott County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Elliott County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk.

During our engagement we noted the County Clerk has serious weaknesses in the financial reporting function. The County Clerk did not maintain a receipts ledger or a disbursements ledger, nor did she prepare a financial statement. In addition, the County Clerk has serious weaknesses in the design and operation of her system of internal controls in the areas of Motor Vehicle Licensing that allowed a Former Deputy Clerk to manipulate and falsify reports and records of the County Clerk's Office. Furthermore, the high risk factors associated with the engagement prevent us from expressing an opinion on the County Clerk's financial statement.

Because there were serious weaknesses in the financial reporting function and serious weaknesses in the design and operation of internal controls over motor vehicle licensing and because audit risk is at an unacceptable level the scope of our audit was not sufficient to enable us to express, and we do not express, an opinion on the financial statement referred to in the first paragraph.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement. Similarly, we are unable to express and do not express an opinion on the schedule of excess of liabilities over assets.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2004, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Based on the results of our work performed, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk Did Not Prepare Legal Process Reports Timely
- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Disbursements
- The County Clerk Was Not Cooperative When The Auditors Requested Access To Her Records
- The County Clerk Did Not Deposit Usage Taxes On A Daily Basis
- A Former Deputy Clerk Manipulated And Falsified The County Clerk's Tangible Personal Property Receipts As A Result Of Lack Of Segregation Of Duties In The County Clerk's Office
- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit Of \$24,243 In Her Fee Accounts
- The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner
- The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes
- The County Clerk Did Not Monitor The Daily Activities Of Her Office
- The County Clerk Did Not Prepare Ledgers Or A Financial Statement
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2004

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Fees For Services	\$	2,581
Fiscal Court		1,122
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	123,881
Usage Tax		223,945
Tangible Personal Property Tax		261,185
Licenses-		
Marriage		1,898
Lien Fees		1,598
Deed Transfer Tax		4,202
Delinquent Tax		27,197
		643,906
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	\$	4,081
Real Estate Mortgages		7,028
Chattel Mortgages and Financing Statements		23,289
Powers of Attorney		240
All Other Recordings		1,872
Charges for Other Services-		
Candidate Filing Fees		3,000
Copywork		705
		40,215
Other:		
VTR Preparation	\$	1,026
Miscellaneous		5,488
		6,514
Interest Earned		116
Total Receipts	\$	694,454

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 95,285

Usage Tax 218,680

Tangible Personal Property Tax 99,310

Licenses, Taxes, and Fees-

Fish and Game 251

Delinquent Tax 2,814

Legal Process Tax 4,695

Candidate Filing Fees 1,800 422,835

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 32,640

Delinquent Tax 2,912

Deed Transfer Tax 2,902 38,454

Payments to Other Districts:

Tangible Personal Property Tax \$ 114,225

Delinquent Tax 11,651 125,876

Payments to Sheriff

1,588

Payments to County Attorney

3,549

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 14,554

Contracted Services-

Contracted Labor 747

Printing and Binding 1,260

Materials and Supplies-

Office Supplies 3,168

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	1,014	
Bond		515	
Postage		1,701	
Miscellaneous		3,037	
Capital Outlay-			
Office Equipment		3,411	29,407
Total Disbursements	\$		621,709
Less: Disallowed Disbursements			
Office Supplies			6,043
Total Disallowed Disbursements			6,043
Total Allowable Disbursements	\$		615,666
Net Receipts			\$ 78,788
Less: Statutory Maximum	\$	57,812	
Expense Allowance		3,600	61,412
Net Receipts After Statutory Maximum and Expense Allowance	\$		17,376
Less - Payable To The			
State For Delinquent Tax	\$	389	
State For Legal Process Tax		696	
County For Tangible Personal Property Tax		622	
County For Delinquent Tax		325	
County For Deed Transfer Tax		1,090	
Other Districts For Tangible Personal Property Tax		10,604	
Other Districts For Delinquent Tax		1,671	
Sheriff For Delinquent Taxes		237	
County Attorney For Delinquent Tax		527	
County Clerk For Training Incentive		1,215	17,376
Balance Due Fiscal Court at Completion of Audit	\$		0

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 2002

Assets

Cash in Bank-		
2001 Fee Account	\$	1,461
2002 Fee Account		22,166
Deposits in Transit		7,145
Receivables-Due From the 2001 Fee Account		
for Payment of 2001 Liability Paid From 2002 Fee Account		<u>6,196</u>
Total Assets	\$	<u>36,968</u>

Liabilities

Paid Obligations-		
Outstanding Checks	\$	25,354
Total Paid Obligations	\$	25,354

Unpaid Obligations for CY 2001:

 Tangible Personal Property Tax -

County	\$	2,702
Health		414
Extension		551
Ambulance		828
School		7,790

 County Clerk-

Due to 2002 Account For Payment Of		
2001 Liability	<u>6,196</u>	18,481

Unpaid Obligations for CY 2002:

 Legal Process Tax-

State	\$	696
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 Tangible Personal Property Tax

County	622
Health	433
Extension	577
Ambulance	1439
School	8155

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
 December 31, 2002
 (Continued)

Liabilities (Continued)

Unpaid Obligations For CY 2002 (Continued)

Delinquent Tax-			
State	\$	389	
County		325	
Health		82	
Extension		90	
Ambulance		171	
Soil Conservation		60	
Solid Waste		56	
School		1,212	
County Attorney		527	
Sheriff		237	
Deed Transfer Tax-			
County		1,090	
County Clerk-			
Additional Salary Due for Training Incentive		<u>1,215</u>	<u>\$ 17,376</u>
Total Unpaid Obligations			<u>\$ 35,857</u>
Total Liabilities			<u>\$ 61,211</u>
Total Fund Deficit as of December 31, 2002			<u><u>\$ (24,243)</u></u>

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COMMENTS AND RECOMMENDATIONS

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

1. The County Clerk Did Not Prepare Legal Process Reports Timely

The County Clerk did not prepare or submit legal process reports for March and December 2002. KRS 131.180(1) imposes a penalty of 2 percent of the fee, up to a maximum of 20 percent of the fee for each 30 days or fraction thereof that the report is filed late. In no case shall the penalty be less than \$10. The County Clerk has been assessed penalties for not having submitted the reports by the 10th of the month following the month of collection. We recommend that the County Clerk prepare and submit all legal process reports to avoid incurring penalties and interest in the future. Furthermore, we remind the County Clerk that submitting legal process in a timely manner is the responsibility of the County Clerk.

County Clerk's Response:

We do our Legal Process on time. If we see we are going to be late, we ask for an extension which we have[sic] always been granted. We do not have the time to notify all

Auditor's Reply:

The County Clerk did not provide the auditors with evidence of an extension. Also, as of the audit date, these reports had not been prepared or submitted.

2. The County Clerk Did Not Publish Her Financial Statement As Required By Law

The County Clerk did not publish her annual financial statement. KRS 424.220 requires the County Clerk's annual financial statement to be published within 60 days after the close of the calendar year. As of the audit date, the County Clerk had not published her annual financial statement for calendar year 2002. We recommend the County Clerk publish her annual financial statement within 60 days after the calendar year.

County Clerk's Response:

2002 was unable to complete due to the theft that was in 2001 and 2002 by the Deputy. 2003 was not completed due to the illness of my bookkeeper.

Auditor's Reply:

As the auditors were able to use reports, cancelled checks and other information obtained by outside parties during the audit, the County Clerk could also have used these items to prepare a financial statement and publish this statement. The County Clerk, however, did not.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

3. The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development

The County Clerk did not prepare quarterly reports for calendar year 2002, nor did she submit the reports to the Governor's Office For Local Development (GOLD) as required by law. GOLD requires county clerks to prepare and submit to them a report for every quarter cumulatively for each calendar year. We recommend the County Clerk prepare her quarterly report and submit it to GOLD as required by law.

County Clerk's Response:

2002 was unable to complete due to the theft that was in 2001 and 2002 by the Deputy. 2003 was not completed due to the illness of my bookkeeper.

Auditor's Reply:

As the auditors were able to use reports, cancelled checks and other information obtained by outside parties during the audit, the County Clerk could also have used these items to prepare a quarterly report and present it to GOLD. The County Clerk, however, did not.

4. The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court

The County Clerk did not present her annual settlement to the fiscal court. KRS 64.152 requires the County Clerk to present an annual settlement and to settle excess fees with the fiscal court by March 15th of each year. We recommend the County Clerk present her annual settlement to the fiscal court and pay excess fees by March 15th of each year.

County Clerk's Response:

There were no excess fees due to the theft of the office for the year 2002. We had to borrow money personally to pay employee, as there were no excess fees.

Auditor's Reply:

KRS 64.152 requires the presentation of an annual settlement regardless of whether or not there are excess fees.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

5. The County Clerk Did Not Keep All Invoices To Support Disbursements

The County Clerk did not keep all invoices to support disbursements. The County Clerk should maintain documentation for all expenditures. In accordance with Funk vs. Milliken, documentation is necessary in order for disbursements to be allowable expenditures. Disbursements not supported by invoices may be disallowed and are subject to be repaid to the fee account from the County Clerk's personal funds. Invoices were not provided for 5 out of 6 disbursements tested. We expanded procedures and tested an additional 8 disbursements. Invoices were not found for 5 out of the 8 additional disbursements tested. We have disallowed ten expenditures totaling \$6,043 due to invoices not being available to auditors. We recommend that the County Clerk keep all invoices on file and that they be available to auditors for inspection.

County Clerk's Response:

The two invoices had been misplaced and were not available at the time they requested.

Auditor's Reply:

The County Clerk was given ample time to obtain invoices to support the disbursements. The County Clerk did not provide the auditors with ten invoices.

6. The County Clerk Was Not Cooperative When The Auditors Requested Access To Her Records

KRS 43.080(2) authorized the Auditor of Public Accounts and her Auditors to access and examine at all times the records of the County Clerk. KRS 43.990(3) criminally penalizes a County Clerk who prevents, attempts to prevent, or obstructs an examination by the Auditors of the records of her office. The County Clerk did not cooperate with the Auditors in compiling and making available her records as required by law. Auditors had to compile records from outside sources, bank records had to be subpoenaed, tax reports had to be obtained from the taxing districts, and legal process reports had to be obtained from the Revenue Cabinet. When Auditors asked the County Clerk to provide missing bank statements by contacting the bank to give permission for copies to be made, the County Clerk abruptly left her office and would not grant the Auditors permission. In addition, the County Clerk did not make herself available to Auditors and left the responsibility for the daily operations of her office to her deputy clerks. This conduct on the part of the County Clerk obstructed the audit in violation of law. To avoid prosecution under KRS 43.990, we recommend that the County Clerk fully cooperate with the Auditor of Public Accounts and provide access to the records and information as required.

County Clerk's Response:

During the audit I was on vacation, yet I came in and out of the office to supervise.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

6. The County Clerk Was Not Cooperative When The Auditors Requested Access To Her Records (Continued)

Auditor's Reply:

Auditors were present in Elliott County from June through August of 2004. The Clerk was given ample time to provide auditors with needed assistance.

7. The County Clerk Did Not Deposit Usage Taxes On A Daily Basis

During the recap of cancelled checks, auditors noted that usage tax receipts were not deposited into the Revenue Cabinet usage account on a daily basis as required by law. According to KRS 138.464 - Weekly report to cabinet - Daily deposit in state depository, the County Clerk shall report each Monday to the Revenue Cabinet all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period. The County Clerk shall deposit motor vehicle usage tax collections not later than the next business day following receipt in a Commonwealth of Kentucky, Revenue Cabinet account in a bank designated as a depository for state funds. We noted there were no deposits made into the Usage account from June 13, 2002 through July 21, 2002, except one check written for an over deposit that was paid to the state for \$19. We recommend the County Clerk deposit usage tax receipts on a daily basis as required.

County Clerk's Response:

Yes, we deposit daily. We have trouble with our Bank and have informed them that it is to be deposited daily before 2 p.m. We are not qualified to call Frankfort on Monday and give our weekly total as we are such a small county. This was verified from Frankfort.

Auditor's Reply:

The County Clerk does not deposit daily. As noted above, for the period of June 13, 2002 through July 21, 2002, only one check was written for usage taxes. During this period of over a month, no deposits were made.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

8. A Former Deputy Clerk Manipulated And Falsified The County Clerk's Tangible Personal Property Receipts As A Result Of Lack Of Segregation Of Duties In The County Clerk's Office
-

The County Clerk's office did not have adequate segregation of duties for tangible personal property tax transactions. As a result, a former deputy clerk was able to manipulate and falsify accounting records.

A former deputy clerk who collected tangible personal property taxes also posted tangible personal property receipts to the receipts ledger on a daily basis. In addition, the former deputy clerk prepared the daily deposit ticket as well as the daily cash checkout sheet. Our procedures revealed the former deputy clerk did not deposit all cash paid by customers for tangible personal property taxes. This improper disposition of monies collected caused the County Clerk to have \$7,377 in undeposited tangible personal property tax receipts. Had the County Clerk compared the daily tangible personal property reports generated by the revenue cabinet to the amount posted to the receipts ledger and the bank deposit ticket for that day, the undeposited receipts could have been detected sooner. Responsibility for the custody of assets such as cash should not overlap with the accounting responsibility of posting to the receipts ledger and making deposits.

In order to help prevent future manipulation and falsification of tangible personal property tax transactions we recommend the County Clerk establish adequate segregation of duties. If adequate segregation of duties is not possible due to the limited number of staff in the County Clerk's office we recommend the County Clerk implement compensating controls. This requires the County Clerk to monitor and supervise the assigned responsibilities of the staff. These controls should be performed on a frequent basis in order to be effective.

County Clerk's Response:

My Bookkeeper and I tried for days to find all problems. I then went to West Liberty office and Janis worked with me and we could not find the reason. We called Lonnie and he said he would be here and also told Janis and he never showed up.

Auditor's Reply:

As noted above, had the County Clerk reviewed and monitored daily activity of the tangible personal property taxes and agreed amounts from the AVIS report to the receipts ledger, this issue could have been detected and resolved earlier.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

9. County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit of \$24,243 In Her Fee Accounts

County Clerk Reeda Ison has a cumulative deficit of \$24,243 in her fee accounts as of December 31, 2002. The cumulative deficit consists of the calendar year 2002 deficit of \$7,223 and the calendar year 2001 deficit of \$17,020. The calendar year 2002 deficit is due to undeposited tangible personal property tax receipts of \$7,377 less an unexplained amount of \$154. The calendar year 2001 deficit is due to undeposited tangible personal property tax receipts of \$12,642, the County Clerk having received salary in excess of net receipts in the amount of \$3,945, and an unexplained amount of \$433. We recommend the County Clerk deposit personal funds in the amount of \$7,223 to eliminate the deficit in the 2002 fee account and deposit personal funds in the amount of \$17,020 to eliminate the deficit in the 2001 fee account. As of the audit date, the County Clerk has not eliminated the deficit in the 2002 fee account or in the 2001 fee account.

County Clerk's Response:

KACO Bonding Co. of Louisville stated that Judge/Exec. Pennington told them to close out the claim that there was not enough evidence even though she pled guilty (Alfred Plea). I was told by KACO that Judge/Exec. Pennington said the Clerk had no authority to file the claim.

Auditor's Reply:

The County Clerk is personally responsible for the deficit in her fee accounts.

10. The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner

The County Clerk has not been preparing reports or paying the taxing districts timely as required. The County Clerk is required to present her annual settlement to the fiscal court; for the calendar years of 1999, 2000, 2001 and 2002, she did not present her annual settlement as required. Also, the County Clerk is required to publish her annual settlement in the newspaper for each calendar year; for calendar year 1999, 2001 and 2002, she did not publish her annual settlement. The County Clerk is required to pay delinquent taxes collected each month to the taxing districts. Currently, the County Clerk has not prepared or paid December 2002 delinquent taxes to the districts. The County Clerk is also required to pay tangible personal property taxes to the Revenue Cabinet and other taxing districts on a monthly basis. The December 2001 tangible personal property taxes of \$7,240 have been paid to the Revenue Cabinet. However, the other taxing districts are still due \$12,285 for December 2001. Also, the December 2002 tangible personal property taxes of \$11,225 have not been paid to the districts. KRS 134.815(2) states that any County Clerk who fails to pay over any taxes collected by him on motor vehicles shall be required to pay one percent (1%) for each thirty (30) day period or fraction thereof, plus interest at the legal rate per annum of such taxes. The County Clerk has not prepared or submitted legal process reports for March 2002 and December 2002 as required. The County Clerk has also been told to keep all invoices for supporting documentation of expenditures. In the calendar years 2000, 2001 and 2002, all invoices were not made available to auditors.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

10. The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner
(Continued)

The County Clerk is responsible for moneys collected from citizens of Elliott County and for disbursing these moneys to the appropriate entities. The County Clerk receives a commission on moneys collected to run her office and should pay the remainder to the taxing districts. We recommend that the County Clerk prepare her reports and pay taxing districts on a timely basis.

County Clerk's Response:

2002 bills have not been settled due to the claim being stopped with KACO (our Bonding Co.). We always fax and get an extension if we're going to be late. The Fiscal Court or local boards may not know this.

Auditor's Reply:

The County Clerk did not provide the auditors with evidence of an extension. Also, as of the audit date, the above-mentioned issues have not been resolved.

11. The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes

During our recap of delinquent tax reports, auditors noted inconsistencies in the preparation and distribution of these taxes. The County Clerk is not collecting the appropriate amount from taxpayers for delinquent taxes due to the fact she is not preparing the tax bills appropriately. The County Clerk is not adding a 20 percent county attorney fee for tax bills from 1997 and prior years. Also, the County Clerk, in some cases, is not adding her clerk's commission to the amount due. Furthermore, the County Clerk is not distributing the appropriate amounts to the districts. We recommend the County Clerk prepare delinquent tax bills properly, collect the proper amount and pay the districts the proper amount.

County Clerk Reeda Ison's Response:

I was never informed to collect the 20% for 1997 and prior years. I had not been informed to collect my commission of 10%. We will in the future collect the correct amount.

12. The County Clerk Did Not Monitor The Daily Activities Of Her Office

During audit procedures, we noted that the County Clerk was absent from her office frequently. She would leave her deputy clerk to maintain and take care of the office. During calendar years 2001 and 2002, a former deputy clerk was able to manipulate and falsify accounting records that resulted in moneys being stolen from the County Clerk's office. Had the County Clerk been monitoring the activity of her office this could have been prevented or detected earlier. However, several occasions during past audits and the current audit, auditors are still noticing the County Clerk's infrequent attendance in her office. This indicates the County Clerk's disregard for completing her duties as required by law. Since the County Clerk had a deputy stealing money from her office, she should have taken a more active role in monitoring her office activities to prevent this from occurring in the future. We recommend the County Clerk monitor the daily activities of her office more closely.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

12. The County Clerk Did Not Monitor The Daily Activities Of Her Office (Continued)

County Clerk's Response:

During their audit I was on vacation and also keeping doctors appointments in Lexington and Morehead. The Clerk is present unless sick. I am not required to stay in the office every minute, as long as the office is open.

Auditor's Reply:

The County Clerk's infrequent attendance has an effect on the operations of her office and has allowed a former deputy clerk to manipulate and falsify tangible personal property tax receipts. It is the responsibility of the County Clerk to monitor her office and in so doing prevention and detection of errors and fraud becomes more likely.

13. The Clerk Did Not Prepare Ledgers Or A Financial Statement

The County Clerk did not maintain a receipts ledger, a disbursements ledger or a financial statement as required. Auditors had to recap all cancelled checks for the 2002 fee account and recap all reports to determine a receipts figure for agreement to the bank records. This additional work will add significant cost to the County. Had the County Clerk maintained ledgers throughout the year and prepared a financial statement this cost may not have been incurred. The County Clerk is required to keep records that comply with the uniform system of accounts. The uniform system of accounts requires revenues to be recorded when received and expenditures to be recorded when paid. However, the County Clerk has not recorded receipts or disbursements for calendar year 2002. We recommend the County Clerk prepare ledgers and a financial statement and comply with the uniform system of account.

County Clerk's Response:

My Bookkeeper had surgery and has not been able to work. She since has been approved for disability.

Auditor's Reply:

As the auditors were able to use the reports, cancelled checks and other information obtained from outside parties during the audit, the County Clerk could also have used these items to prepare ledgers and a financial statement. The County Clerk, however, did not. It is the responsibility of the County Clerk to maintain ledgers and would not have been an issue had the Clerk posted to them daily.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2002
 (Continued)

14. The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- The County Clerk should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The County Clerk should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any differences should be reconciled. The County Clerk could document this by initialing the quarterly financial report.
- The County Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The County Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.
- The County Clerk should monitor and supervise the assigned responsibilities of her staff.

County Clerk's Response:

There are only two of us and I do monitor and supervise the assigned duties.

Auditor's Reply:

The County Clerk did not provide auditors with evidence to support this.

PRIOR YEAR:

- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Disbursements
- A Former Deputy Clerk Manipulated And Falsified County Clerk's Tangible Personal Property Receipts As A Result Of Lack Of Adequate Segregation Of Duties In The County Clerk's Office
- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Have Determined If Net Receipts Were Available For Her 2001 Statutory Maximum Salary
- County Clerk Reeda Ison Should Have Avoided The Deficit of \$17,020 In The 2001 Fee Account
- The County Clerk Should Be More Timely In Preparing Her Reports And Paying Taxing Districts

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive
The Honorable Reedda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We were engaged to audit the statement of receipts, disbursements, and excess fees of the Elliott County Clerk for the year ended December 31, 2002, and have issued our report thereon dated September 9, 2004, wherein we disclaimed an opinion on the financial statement based on inability to overcome the serious weaknesses in her financial reporting function, serious weaknesses in the design of internal controls, and because of high risk factors.

Compliance

As part of obtaining reasonable assurance about whether the Elliott County Clerk's financial statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not our objective, and accordingly, we do not express such an opinion. The results of our work disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Did Not Prepare Legal Process Reports Timely
- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Disbursements
- The County Clerk Was Not Cooperative When The Auditors Requested Access To Her Records
- The County Clerk Did Not Deposit Usage Taxes On A Daily Basis



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Clerk's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- A Former Deputy Clerk Manipulated And Falsified The County Clerk's Tangible Personal Property Receipts As A Result Of Lack Of Segregation Of Duties In The County Clerk's Office
- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit Of \$24,243 In Her Fee Accounts
- The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner
- The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes
- The County Clerk Did Not Monitor The Daily Activities Of Her Office
- The County Clerk Did Not Prepare Ledgers Or A Financial Statement
- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2004

